



WILLIAM T FUJIOKA
Chief Executive Officer

County of Los Angeles CHIEF EXECUTIVE OFFICE

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July 12, 2013

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To: Supervisor Mark Ridley-Thomas, Chairman
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Supervisor Don Knabe
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From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to be "W. T. Fujioka", is written over the printed name of the Chief Executive Officer.

SACRAMENTO UPDATE - ENTERPRISE ZONE REFORM LEGISLATION

Executive Summary

This memorandum is to provide the Board a report on the following two enterprise zone reform bills of interest to the County:

- **AB 93 (Committee on Budget)** - related to the elimination of the State's Enterprise Zone Program and the New Jobs Credit Tax Incentive, and instituting three new business incentive programs.
- **SB 90 (Galgiani)** - related to clarifying certain provisions of AB 93 related to qualified employees and businesses eligible for the hiring credit program proposed under AB 93, extending the sales and use tax exemption carry-over period, and establishing pilot areas in additional geographic areas for the hiring credit program.

Both measures were signed by Governor Brown on July 11, 2013 and will take effect immediately.

"To Enrich Lives Through Effective And Caring Service"

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Background

The Enterprise Zone (EZ) Program provides special incentives designed to stimulate economic development, business investment, and job creation in depressed areas of the State by providing tax incentives to businesses that hire qualified persons, including veterans, recipients of public assistance, those who are disabled, and members of other eligible groups. Each enterprise zone is administered by its local jurisdiction working with local agencies and business groups to promote economic growth through business expansion, attraction and retention. Participation in the program by individuals and private businesses is voluntary. The California Department of Housing and Community Development (HCD) has administered the EZ Program since January 1, 2004.

Under existing law, the New Jobs Credit Program provides a tax credit of up to \$3,000 for each additional full-time employee hired by small businesses with 20 or fewer employees, beginning on January 1, 2009. Generally, an employer may not claim the credit for an employee who is certified as a qualified employee in an enterprise zone or similar incentive area, or for an employee whose wages are included in calculating any other tax credit allowed. In addition, there must be a net increase in qualified full-time employees compared to the number of full-time individuals employed in the preceding taxable year. The credit is an allocated credit and must be claimed on a timely filed original return received by the Franchise Tax Board on or before a cut-off date specified.

As previously reported, the Governor's FY 2013-14 May Revision proposed to redirect approximately \$700.0 million annually from the existing Enterprise Zone Program to three new business incentive programs and to modernize the State's job creation and economic development incentives to ensure that small businesses are able to easily obtain the manufacturing sales tax exemption, and to dedicate a portion of the hiring tax credit and the incentive fund solely to small businesses. Under the Governor's proposal, businesses would have been allowed to continue using Enterprise Zone carryover credits for five years and would have been able to continue to earn hiring credits for employees hired prior to January 1, 2014.

As part of the budget process, the Budget Conference Committee heard the Governor's proposal but took no action, essentially removing it from the State Budget package. As a result, the Legislature began pursuing Enterprise Zone reform proposals through the regular legislative process during the week of June 24, 2013.

Enacted Enterprise Zone Reform Legislation

AB 93 (Committee on Budget), which would eliminate the State's Enterprise Zone Program and institute three new business tax incentive programs, including: 1) a Sales and Use Tax exemption for manufacturing and bio-tech equipment and similar purchases; 2) a hiring credit under the Personal Income Tax (PIT) and Corporation Tax (CT) for employment in specified geographic areas; and 3) allocations of income tax credits through the Governor's Office of Business and Economic Development to assist in retaining existing and attracting new business activity in the State, was signed by the Governor on July 11, 2013. This measure is Chapter 69, Statutes of 2013.

SB 90 (Galgiani), which would make the following changes to the provisions of AB 93 of 2013: 1) specify that, for the purposes of the hiring credit program that would be created if AB 93 is enacted, a qualified employee may also be a person who is on CalWORKs or county general assistance, an ex-offender previously convicted of a felony, or a veteran separated from the Armed Forces within the previous 12 months; 2) prohibit a sexually oriented business, no matter the size, from receiving hiring credits under the program; 3) provide that the Sales and Use Tax exemption for purchases of manufacturing and bio-tech equipment will apply for eight years from July 1, 2014 to July 1, 2022 (rather than January 1, 2012 for businesses in the current Enterprise Zones and January 1, 2019 for those outside of those areas); 4) authorize the Governor's Office of Business and Economic Development to designate up to five pilot areas where hiring credits can be claimed for employees who are earning \$10 per hour; and 5) clarify that the tax credits businesses previously accrued under the former Enterprise Zone Program can be carried over for 10 years. This bill was also signed by the Governor on July 11, 2013, and it is Chapter 70, Statutes of 2013.

Both measures contain an urgency clause and will take effect immediately.

We will continue to keep you advised.

WTF:RA
MR:AO:ma

c: All Department Heads
Legislative Strategist